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UNCLAS SECTION 01 OF 02 ASHGABAT 000389

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STATE FOR SCA/CEN (PERRY)

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SUBJECT: IN FOREIGN CONSTRUCTION TURKMENBASHY TRUSTS

REF: ASHGABAT 387

Sensitive but Unclassified Q Please handle accordingly.

Summary

1. (SBU) Foreign companies are primarily responsible for transforming Ashgabat into Niyazov's white city. The GOTX and construction companies claim that contracts are awarded on the basis of open tenders. In reality, Niyazov makes the decisions and many of the most important projects are awarded without a tender to companies the president trusts. While the construction boom obviously has been good to the foreign companies positioned to take advantage of it, there are some indications that at least some companies are not being paid regularly for their services. In addition, Turkmenistan is not developing significant indigenous capability to address Niyazov's building lust, resulting in capital flight of hydrocarbon revenues from Turkmenistan's significant needs to largely Turkish and French pockets. End Summary.

Foreign Construction Builds the White City

2. (SBU) While proceeds from Turkmenistan's gas industry fund the remaking of Ashgabat in President Niyazov's image, foreign construction firms do virtually all of the heavy lifting. As of February 1, 231 separate construction projects worth more than \$4.5 billion were ongoing in Turkmenistan. Turkish construction companies account for more than 60% of these projects; mainly residential apartment buildings. The majority of these companies do little or no construction business in Turkey. The largest construction company in Turkmenistan, Gap Insaat, is primarily known in Turkey as a textile company. (Comment: Turkish companies frequently are involved in projects even when they are not selected as the prime contractor, such as Niyazov's ice skating facility, which was awarded to the French company Bouygues, but in reality is being built by Gap Insaat as a subcontractor. End Comment.) Turkish Embassy counselor Ozgur Celikel told emboffs that several better known construction companies, such as Gamma Construction and Mensel, have tried to do business in Turkmenistan, but have been unable/unwilling to adapt to the capricious business climate.

3. (SBU) Turkish companies account for the majority of construction projects, but they are not the only foreign companies building in Turkmenistan. Bouygues Construction, which has built many of the GOTX's high profile projects, including the Presidential Palace and the \$113 million Gypchak Mosque, continues to receive

the most prestigious construction contracts directly from Niyazov, according to French DCM Henri Tomasini. Meanwhile, official statistics show that Ukrainian companies, which run a distant second to the Turks in total number of projects, are building most of Ashgabat's roads and other physical infrastructure.

Not So Tender

14. (SBU) Omer Gulchetiner, General Director of the Turkish company Sehil Insaat, and Gap Insaat Business Development Manager Aziz Cengel told emboffs that their companies obtain new construction projects by responding to GOTX public tenders. According to Gulchetiner, the cost and quality of construction are the primary factors in a successful bid. He also said that the GOTX tended to be comfortable working with specific companies for specific types of projects. For example, Sehil Insaat enjoys a good relationship with the GOTX law enforcement agencies and generally is selected for projects associated with the Ministries of Interior or National Security.

15. (SBU) Cost and quality may play a role in the process; however, as with everything else in Turkmenistan the final decision comes down to President Niyazov. All major construction companies have a relationship with the President, according to Celikel. The French DCM told emboffs that Niyazov typically does not bother with a tender before awarding the most prestigious contracts to Bouygues. Rather, details are worked out in private meetings between the President Bouygues' chairman. (Comment: Tomasini was unaware of the status of several high profile Bouygues projects in the city. He characterized the company's operations in Ashgabat as a "separate embassy" illustrating how the French Embassy distances itself from

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Bouygues, when convenient. The French Embassy does not, on the other hand, lend support to human rights or religious freedom issues, in order not to jeopardize Bouygues. End Comment.)

Money Matters

16. (SBU) Presidential decrees authorizing construction projects allocate the amount and sources of funding. Turkish construction company officials told emboffs that construction projects are generally paid for out of the state budget or by a specific government agency; some larger projects, such as manufacturing plants, are financed. (Comment: Gulchetiner said that a recent Sehil Insaat-built project was rejected by the Turkish Export Import Bank because of the existence of unpaid GOTX debts. End Comment.) Thirty percent of the projects cost typically is paid up front, while the rest is paid in monthly installments according to a schedule laid out in the contract. The Turkish Embassy Counselor told emboffs that he is not aware of any current problems with companies being paid. However, he said, the GOTX has refused to pay fully the Turkish company Mensel for its construction of Ashgabat's 30,000 seat "Olympic Stadium" because it was smaller than Niyazov had wanted. Gap Insaat's Turkmenistan Country Manager initially told emboffs that GOTX payments often are slow in coming, a problem he later attributed solely to bureaucratic problems. (Comment: Gap is the part of the overall Calik Group, owned by dual Turkish-Turkmen citizen Ahmet Calik. The Group is involved in everything from textiles to gas and oil to construction and even owns a bank in Albania. Calik was a dual citizen to permit him to serve as Deputy Minister of Textiles and Niyazov's envoy for energy sales to Turkey, but he was dismissed from these posts in September 2004. Post has heard persistent rumors that Gap Insaat has experienced increasing difficulties since Calik was dropped from the government. Company officials told emboffs that this was not the case, but rumors abound. End Comment.)

Comment

17. (SBU) Ashgabat's construction boom obviously has been very

good to the select few companies positioned to take advantage of it. Each day's newspaper carried stories on new construction plans. While Turkish and French companies profit from building Niyazov's white city, there is no attendant development of indigenous construction capability. Local companies have minor contracts building four two story buildings on the city's outskirts intended to house many of those forced out of their homes by the construction frenzy (reftel). While Niyazov's construction craze continues, hydrocarbon revenues (by definition finite being derived from a nonrenewable resource) will continue to fly out of Turkmenistan into foreign pockets.

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